

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
CLERK**

**For The Period January 6, 2003
Through December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John Settles, Washington County Judge/Executive
Honorable Glenn Black, Washington County Clerk
Members of the Washington County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Clerk of Washington County, Kentucky, for the period January 6, 2003 through December 31, 2003.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Washington County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
CLERK**

**For The Period
January 6, 2003 through December 31, 2003**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WASHINGTON COUNTY CLERK

**For The Period January 6, 2003
Through December 31, 2003**

Carpenter, Mountjoy & Bressler, PSC has completed the Washington County Clerk's audit for the period January 6, 2003 through December 31, 2003. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$11,266 from the prior year, resulting in excess fees of \$ 15,663 as of December 31, 2003. Revenues decreased by \$138,327 from the prior year and expenditures decreased by \$149,593.

Debt Obligations:

Capital lease principal agreements totaled \$ 14,388 as of December 31, 2003.

Report Comments:

- Lacks Adequate Segregation Of Duties
- The County Clerk Should Have a Written Agreement To Protect Deposits

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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The Honorable John Settles, Washington County Judge/Executive
The Honorable Glenn Black, Washington County Clerk
Members of the Washington County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Washington County, Kentucky, for the period January 6, 2003 through December 31, 2003. This financial statement is the responsibility of the Washington County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Washington County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Washington County Clerk for the period January 6, 2003 through December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2004, on our consideration of the Washington County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable John Settles, Washington County Judge/Executive
The Honorable Glenn Black, Washington County Clerk
Members of the Washington County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- Lacks Adequate Segregation Of Duties
- The Clerk Should Have a Written Agreement To Protect Deposits

This report is intended solely for the information and use of the Washington County Clerk and Fiscal Court of Washington County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in dark ink on a light-colored background.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 24, 2004

WASHINGTON COUNTY
GLENN BLACK, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period January 6, 2003 Through December 31, 2003

Revenues

State Fees For Services	\$	5,060
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Fiscal Court		16,350
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	280,212
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Usage Tax		618,354
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Tangible Personal Property Tax		701,317
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Licenses-

Fish and Game		2,039
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Marriage		2,996
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Deed Transfer Tax		31,682
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Delinquent Tax	27,526	1,664,126
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	17,859
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Real Estate Mortgages		23,691
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Chattel Mortgages and Financing Statements		26,534
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All Other Recordings		14,169
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Charges for Other Services-

Copywork		1,711
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State & Federal Liens		468
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Notary Bond & Fees	3,864	88,296
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Other:

Permit	\$	20
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Trans. Merch. License		25
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Miscellaneous	26	71
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Interest Earned		217
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Total Revenues	\$	1,774,120
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The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
 GLENN BLACK, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 6, 2003 Through December 31, 2003
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	224,892	
Usage Tax		599,797	
Tangible Personal Property Tax		273,237	
Licenses, Taxes, and Fees-			
Fish and Game		1,857	
Delinquent Tax		3,854	
Legal Process Tax		11,594	\$ 1,115,231

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	42,104	
Delinquent Tax		2,404	
Deed Transfer Tax		30,093	74,601

Payments to Other Districts:

Tangible Personal Property Tax	\$	355,080	
Delinquent Tax		14,305	369,385

Payments to Sheriff 319

Payments to County Attorney 4,053

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	80,288
Part-Time Salaries		2,741

Employee Benefits-

Employer's Share Social Security		10,658
Payroll Taxes 2002		6,774

Contracted Services-

Advertising		3
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Materials and Supplies-

Office Supplies		11,825
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Other Charges-

Refunds		1,190
Tax Bill Preparation		1,530
Conventions and Travel		1,083
Dues		1,100

The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
GLENN BLACK, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Period January 6, 2003 Through December 31, 2003
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges - (Continued)

Postage \$ 2,719

Election Supplies 180

Miscellaneous 259

Capital Outlay-

Office Equipment 349 \$ 131,310

Total Expenditures \$ 1,694,899

Net Revenues \$ 79,221

Less: Statutory Maximum 59,199

Excess Fees \$ 20,022

Less: Expense Allowance \$ 3,600

Training Incentive Benefit 759 4,359

Excess Fees Due County for 2003 \$ 15,663

Payments to Fiscal Court - January 22, 2004 15,000

Balance Due Fiscal Court at Completion of Audit \$ 663

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, 2003 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WASHINGTON COUNTY
GLENN BLACK, COUNTY CLERK
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the County Clerk securing the Clerk's interest in the collateral.

Note 4. Lease

The office of the Washington County Clerk was committed to a lease agreement with Citi Capital for a copying machine. The agreement requires a monthly payment of \$327 for sixty months to be completed on August 22, 2007. The total balance of the agreement was \$14,388 as of December 31, 2003.

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COMMENTS AND RECOMMENDATIONS

WASHINGTON COUNTY
GLENN BLACK, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Period January 6, 2003 Through December 31, 2003

STATE LAWS AND REGULATIONS:

The County Clerk Should Have A Written Agreement To Protect Deposits

The Washington County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of March 31, 2003, the Washington County Clerk had bank deposits of \$ 139,574.66; FDIC insurance of \$ 100,000; and collateral pledged or provided of \$72,122. Even though the Washington County Clerk obtained sufficient collateral of \$72,122, there was no written agreement between the Washington County Clerk and the depository institution, signed by both parties, securing the Washington County Clerk's interest in the collateral. We recommend the Washington County Clerk enter into a written agreement with the depository institution to secure the Washington County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Clerk's Response:

None

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities.

The Clerk could institute additional controls to compensate for the lack of adequate segregation of duties by recounting and depositing monies, performing surprise cash counts, reconciling monthly reports to receipts and disbursements ledgers and reviewing the bank reconciliation.

County Clerk's Response

None

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable John Settles, Washington County Judge/Executive
The Honorable Glenn Black, Washington County Clerk
Members of the Washington County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Washington County Clerk for the period January 6, 2003, through December 31, 2003, and have issued our report thereon dated November 24, 2004. This was a special report on the Washington County Clerk's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Washington County Clerk's financial statement for the period January 6, 2003, through December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations:

- The County Clerk Should Have A Written Security Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

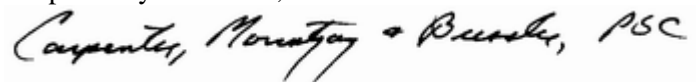
- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 24, 2004

